

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION**

BARRY FIALA, INC.,)	
)	
Plaintiff,)	
)	
)	No. 2:02cv2282
v.)	
)	
ARTHUR BLANK & COMPANY, INC.,)	
)	
Defendant.)	

**ORDER DENYING PLAINTIFF’S MOTION
TO STRIKE DEFENSES AND DENYING PLAINTIFF’S MOTION TO DISMISS
COUNTERCLAIMS**

This matter is before the Court on Plaintiff Barry Fiala, Inc. (“Fiala”)’s motion to strike Defendant Arthur Blank & Company, Inc. (“Blank”)’s second, fifth, and seventh defenses and third, fifth, sixth, and seventh counterclaims, pursuant to Rules 12(f) and 12(b)(6), respectively, of the Federal Rules of Civil Procedure. Plaintiff contends that its motion should be granted because Defendant’s defenses and counterclaims are insufficient as a matter of law. This Court has jurisdiction pursuant to 28 U.S.C. § 1331. For the following reasons, the Court DENIES Plaintiff’s motion to strike, DENIES Plaintiff’s motion to dismiss counterclaims, and GRANTS Defendant leave to amend its sixth and seventh counterclaims.

I. Factual Background¹

Plaintiff, a corporation located in Memphis, Tennessee, manufactures packages of pre-paid phone and gift cards. On June 19, 2002, Plaintiff filed an amended complaint alleging inducement of infringement and contributory patent infringement stemming from the shipment of allegedly infringing materials to Wal-Mart Stores, Inc. and other retailers. Plaintiff received a patent, U.S. Patent No. 5,918,909 (“‘909 patent”), from the United States Patent and Trademark Office [hereinafter “PTO”], on a product combining a method of activating point-of-sale phone and gift cards with packaging for these cards. Defendant, a plastic card manufacturer located in West Roxbury, Massachusetts, manufactures and sells plastic cards capable of a variety of uses, from credit cards to drivers’ licenses to telephone cards. Defendant developed a one-piece, snap-off, pre-paid phone/gift card named the RAC card. For 2001, Wal-Mart purchased 60,000,000 gift cards from Plaintiff. For its 2002 gift card needs, Wal-Mart elected to purchase 60,000,000 of Defendant’s RAC cards.

Plaintiff moved for a preliminary injunction seeking to enjoin Defendant from continuing its sale of RAC cards to Barnes & Noble, Inc., and from shipping its RAC cards to Wal Mart. In an Order dated October 30, 2002, the Court denied Plaintiff’s motion for a preliminary injunction.

II. Legal Standard

A. Motion to Strike Standard

¹ The relevant facts and background information for this case can be found in this Court’s earlier Order dated October 30, 2002. In the interest of brevity, these facts are only summarized herein.

A party may move to strike an asserted defense under Fed. R. Civ. P. 12(f). The purpose of a motion to strike under Fed. R. Civ. P. 12(f) is to eliminate “redundant, immaterial, impertinent, or scandalous matter in any pleading, and [it] is the primary procedure for objecting to an insufficient defense.” 5A Charles Alan Wright & Arthur R. Miller, Federal Practice & Procedure § 1380 (2d ed. 1990); see also Kennedy v. City of Cleveland, 797 F.2d 297, 305 (6th Cir. 1986) (noting that the purpose of a motion to Fed. R. Civ. P. 12(f) is to “avoid the expenditure of time and money that must arise from litigating spurious issues by dispensing with those issues prior to trial.”). To strike inappropriate or redundant defenses, “it must be shown that the allegations being challenged are so unrelated to plaintiff’s claims as to be unworthy of any consideration as a defense and that their presence in the pleading throughout the proceeding will be prejudicial to the moving party.” Id., § 1380, at 650. A motion to strike must be denied if the answer being challenged contains “allegations from which an inference can be drawn that evidence on these material points will be introduced at trial.” Roberts v. Wal-Mart Stores, Inc., 736 F. Supp. 1527, 1528 (E.D. Mo. 1990) (citation omitted).

A motion to strike a defense “is a drastic remedy to be resorted to only when required for the purposes of justice.” Brown & Williamson Tobacco Corp. v. United States, 201 F.2d 819, 822 (6th Cir. 1953) (citations omitted); see also Kelley v. Thomas Solvent Co., 714 F. Supp. 1439, 1442 (W.D. Mich. 1989); Wright & Miller, supra, § 1380, at 647-49 (“motions under Rule 12(f) are viewed with disfavor and are infrequently granted.”); id., § 1381, at 672 (“even when technically appropriate and well-founded, they often are not granted in the absence of a showing of prejudice to the moving party.”). All well-pleaded facts are taken as admitted on a motion to strike. Kelly v. Kosuga, 358 U.S. 516 (1959); Wright & Miller, supra, § 1380, at 655.

B. Motion to Dismiss Standard

A party may move to dismiss a counterclaim for failure to state a claim upon which relief may be granted under Fed. R. Civ. P. 12(b)(6). The purpose of a motion to dismiss under Fed. R. Civ. P. 12(b)(6) is to test the formal sufficiency of the claim, not to resolve the facts or merits of the case. Scheuer v. Rhodes, 416 U.S. 232, 236 (1974). A counterclaim should not be dismissed pursuant to Fed. R. Civ. P. 12(b)(6) “unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.” Conley v. Gibson, 355 U.S. 41 (1957). Thus, the standard to be applied when evaluating a motion to dismiss for failure to state a claim is very liberal in favor of the party opposing the motion. Westlake v. Lucas, 537 F.2d 857, 858 (6th Cir. 1976). Even if the plaintiff’s chances of success are remote or unlikely, a motion to dismiss should be denied. Scheuer, 416 U.S. at 236.

In reviewing the counterclaim, the court must accept as true all factual allegations in the counterclaim and construe them in the light most favorable to the plaintiff. Scheuer, 416 U.S. at 236; Windsor v. The Tennessean, 719 F.2d 155, 158 (6th Cir. 1983), cert. denied, 469 U.S. 826 (1984). Legal conclusions or unwarranted factual inferences, however, should not be accepted as true. Lewis v. ACB Business Servs., Inc., 135 F.3d 389, 405-06 (6th Cir. 1997). A motion to dismiss may be granted “only if it is clear that no relief could be granted under any set of facts that could be proved consistent with the allegations.” Hishon v. King & Spalding, 467 U.S. 69, 73 (1984)).

III. **Analysis**

A. **Motion to Strike**

Plaintiff avers that Defendant’s second, fifth, and seventh defenses should be stricken from Defendant’s Answer. The second defense alleges that Plaintiff’s complaint fails to state a claim upon which relief can be granted. See Def.’s Affirmative Defenses, ¶31. Defendant’s fifth defense

contends that the ‘909 patent is invalid due to Plaintiff’s inequitable conduct in prosecuting the patent. See id., ¶¶ 34-36. Defendant’s seventh defense claims that Plaintiff has suffered no damages cognizable under law. See id., ¶ 38.

1. Failure to State a Claim Defense

Plaintiff contends that the second defense should be stricken because the complaint adequately states a claim by complying with Form 16 of the Federal Rules of Civil Procedure. See Mem. In Supp. of Pl.’s Mot. To Strike Defenses And Dismiss Countercls. at 2. Defendant argues that a motion to strike is improper if, after discovery, it might be possible to present facts showing that the patent—and therefore the patent infringement claim—is improper. Def.’s Opp. To Pl.’s Mot. To Strike Defenses And Dismiss Countercls. at 10. Because the parties have not had an opportunity to conduct discovery, Plaintiff’s motion to strike is not well-founded..

The second defense is not the type of “redundant, immaterial, impertinent, or scandalous matter” which Rule 12(f) is intended to address. Nor is this defense unduly prejudicial to Plaintiff. While the Court cannot determine, at this time, whether this defense will ultimately prevail, Plaintiff has failed to demonstrate that ““no relief could be granted under any set of facts that could be proved consistent with the allegations.”” Def.’s Opp. at 10 (citing Block v. Ribar, 156 F.3d 673, 677 (6th Cir. 1996)). Accordingly, Plaintiff has not demonstrated cause for relief.

2. Inequitable Conduct Defense

Plaintiff next contends that Defendant’s fifth defense of inequitable conduct should be stricken because it fails to meet the specificity requirement of Fed. R. Civ. P. 9(b). Mem. In Supp. of Pl. at 2-3. In response, Defendant agrees that Fed. R. Civ. P. 9(b) applies to inequitable conduct allegations, but argues that Fed. R. Civ. P. 9(b)’s specificity requirements were satisfied because the

Answer provides sufficient particularity regarding the circumstances constituting the inequitable conduct. Def.'s Opp. at 5-9.

Rule 9(b) states that “[i]n all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity.” To satisfy this requirement, the Sixth Circuit has determined that “the circumstances of the [inequitable conduct] be pled with enough specificity to put defendants on notice as to the nature of the claim.” Michaels Bldg. Co. v. Ameritrust Co., N.A., 848 F.2d 674, 680 (6th Cir. 1988). A non-movant has sufficient notice when the movant “allege[s] the time, place, and content of the alleged” inequitable conduct; the scheme underlying the inequitable conduct; the intent of the non-movant; and the injury resulting from the inequitable conduct. See Coffey v. Foamex, 2 F.3d 157, 161-62 (6th Cir. 1993) (citation and quotation omitted); Michaels Bldg. Co., 848 F.2d at 679.

Defendant alleges that Plaintiff, in prosecuting the ‘909 patent, failed to disclose to the PTO “material prior art (including one-piece prepaid cards) as well as the inventive contributions of other persons including Mr. Mark McKinney,” with an intent to deceive the PTO. See Def.’s Affirmative Defenses, ¶ 34. Moreover, Defendant avers that the scheme underlying this inequitable conduct was “to secure a right to exclusivity that Fiala was not entitled to,” thereby injuring Plaintiff’s competitors’ ability to produce rival products. Def.’s Opp. at 7. As a result, the Court finds that the fifth defense² satisfies Fed. R. Civ. P. 9(b) because it provides Plaintiff with sufficient notice of “the circumstances constituting [inequitable conduct] ... with particularity.” This finding is bolstered by

² The third counterclaim based on inequitable conduct employs language identical to the fifth defense. Accordingly, the Court denies Plaintiff’s motion to dismiss the third counterclaim for the same reasons the Court denies Plaintiff’s motion to strike the fifth defense.

the Sixth Circuit's instruction that Fed. R. Civ. P. 9(b) must be read in harmony with Fed. R. Civ. P. 8's liberal pleading requirement. See Michaels Bldg. Co., 848 F.2d at 679. Accordingly, Plaintiff's request for relief is denied.

3. No Damages Cognizable Under Law Defense

Plaintiff also avers that Defendant's seventh defense should be stricken because, even if true, this defense does not bar Plaintiff from obtaining a reasonable royalty or injunctive relief. See Mem. In Supp. of Pl. at 3-4. Defendant argues, however, that 1) it is entitled to challenge Plaintiff's damages claim even if Plaintiff may also obtain injunctive relief; and 2) because the patent is invalid, Plaintiff cannot recover even a reasonable royalty as damages. See Def.'s Opp. at 10.

The Court finds that, because Plaintiff seeks both damages and injunctive relief, Defendant is entitled to assert a defense to the damages claim even if injunctive relief is awarded. Moreover, in its Answer, Defendant challenges the validity of the patent itself. If proved, this would directly support a finding that Plaintiff suffered no damages cognizable at law. Therefore, Plaintiff's motion to strike Defendant's second, fifth, and seventh defenses is denied.

B. Motion to Dismiss

Plaintiff avers that Defendant's fifth, sixth, and seventh counterclaims should be dismissed for failure to state a claim upon which relief can be granted, pursuant to Fed. R. Civ. P. 12(b)(6). The fifth counterclaim asserts that Plaintiff committed an abuse of process tort because the timing of the instant suit and the motion for a preliminary injunction were targeted to harm Defendant. See Def.'s Countercls. ¶¶ 22-25. Defendant's sixth counterclaim contends that Plaintiff violated 15 U.S.C. § 2 by improperly attempting to monopolize the pre-paid card industry by knowingly asserting a fraudulently obtained patent. See id. ¶¶ 26-29. Defendant's seventh counterclaim states

that Plaintiff violated 15 U.S.C. § 2 by improperly attempting to monopolize the pre-paid card industry by instigating this “sham” litigation with knowledge that the litigation lacked merit. See id. ¶¶ 30-34. The Court will address these in turn.

1. Abuse of Process Counterclaim

Plaintiff argues that Defendant has failed to state a counterclaim for abuse of process because it cannot prove any set of facts to support the second element of an abuse of process claim: that Plaintiff acted “in the use of process other than such as would be proper in the regular prosecution of the charge.” See Mem. In Supp. of Pl. at 5 (citing Bell v. Icard, Merrill, Cullis, Timm, Furen and Ginsburg, P.A., 986 S.W. 2d 550, 555 (Tenn. 1999)). Plaintiff further contends that initiating a lawsuit, even though accompanied by an ulterior motive, is not abuse of process. Id. at 5 (citing Bell, 986 S.W. 2d at 555). In response, Defendant states that its counterclaim is predicated not on the mere initiation of a lawsuit, but on the timing of a lawsuit “in an effort to improperly disrupt or sever the above-identified [Wal-Mart] business relationship, something Arthur Blank would not otherwise be legally or regularly compelled to do.” Def.’s Opp. at 11 (citing Def.’s Countercl. ¶ 25). Specifically, Defendant argues that Plaintiff strategically filed the lawsuit when it did in an effort to impact adversely Defendant’s business and business relationships.

“The test as to whether process has been abused is ‘whether the process has been used to accomplish some end which is without the regular purview of the process, or which compels the party against whom it is used to do some collateral thing which he could not legally and regularly be compelled to do.’” Givens v. Mullikin, 2002 Tenn. LEXIS 153 at *33 (Tenn. 2002) (quoting Priest v. Union Agency, 174 Tenn. 304, 307, 125 S.W. 2d 142, 143-44 (1939)). The Givens Court elaborated that the abuse of process tort, at its most fundamental level, “is intended to prevent parties

from using litigation to pursue objectives other than those claimed in the suit, such as using a court's process as a weapon 'to compel (another party) to pay a different debt or to take some action or refrain from it.'" Id. at *33-34 (citation omitted).

The Court finds that Plaintiff has failed to show that no set of facts exist in support of Defendant's counterclaim which would entitle Defendant to relief. See Conley, 355 U.S. at 45-46. For example, Defendant might demonstrate, after discovery, that the primary purpose behind Plaintiff's motion for a preliminary injunction was not to be spared irreparable harm but to inflict harm on Defendant's Wal-Mart business prospects by asserting a time-consuming and disruptive yet frivolous claim. If Defendant can disclose any such "collateral goal," it will have a valid abuse of process claim against Plaintiff. On this basis, Plaintiff's motion must be denied.

2. Attempted Monopolization Counterclaims

Plaintiff contends that Defendant's sixth and seventh counterclaims should be dismissed because Defendant failed to assert sufficient facts to support each element of its antitrust claims. Mem. In Supp. of Pl. at 6-9. Plaintiff also asserts that Defendant's seventh counterclaim should be dismissed based on the Noerr-Pennington doctrine because Defendant failed to allege facts supporting the "sham" nature of Plaintiff's lawsuit. Id. at 8-9 (citing Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 135 (1961)). Defendant's response alleges that the counterclaims provide sufficient facts supporting each element of its two antitrust counterclaims. Def.'s Opp. at 13. Defendant also contends that it has provided sufficient facts to support its "sham" litigation argument and overcome Noerr-Pennington immunity. See id. at 14.

Parties suing to enforce their patents generally are immune from antitrust counterclaims regarding such enforcement. See Noerr, 365 U.S. at 135. In two instances, however, conduct in

procuring or enforcing a patent may be sufficient to overcome the patentee's antitrust immunity:

A patentee who brings an infringement suit may be subject to antitrust liability for the anti-competitive effects of that suit if the alleged infringer (the antitrust plaintiff) proves (1) that the asserted patent was obtained through knowing and willful fraud within the meaning of Walker Process ... or (2) that the infringement suit was a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationship of a competitor.

Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1068 (Fed. Cir. 1998) (internal citations omitted). Under the first approach, a patentee may be stripped of its antitrust immunity if the patentee “‘obtained the patent by knowingly and willfully misrepresenting facts to the [PTO]’” and the patentee “‘must also have been aware of the fraud when bringing suit.’” Id. at 1068-69 (citing Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172, 177 (1965)). Additionally, the Federal Circuit³ has clarified that the type of fraud alleged in such a “Walker Process” counterclaim must be “more serious” than mere inequitable conduct in procuring the patent, requiring a “knowing, willful and intentional act, misrepresentation or omission before the [PTO]” and awareness of the fraud when bringing suit. Id. at 1069-1071.

Under the alternative approach, regardless of whether the patentee defrauded the PTO, an antitrust claim can be brought under Noerr's “sham” exception to antitrust immunity if the antitrust plaintiff can “prove that the suit was both objectively baseless and subjectively motivated by a desire to impose collateral, anti-competitive injury rather than to obtain a justifiable legal remedy.” Id. at 1071 (citing Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 60-61 (1993)). Under either approach, to find liability, the antitrust claimant must also prove the

³ Federal Circuit law, rather than Sixth Circuit law, governs “whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws.” Nobelpharma AB, 141 F.3d at 1068.

necessary elements of a substantive antitrust violation. See Walker Process, 382 U.S. at 178; Professional Real Estate Investors, 508 U.S. at 60-61.

This Court finds that Defendant's sixth and seventh counterclaims comply with Nobelpharma's articulation of the Walker Process and Professional Real Estate Investors requirements. In its sixth counterclaim, Defendant alleges that Plaintiff fraudulently obtained the patent by failing to submit prior material art and by failing to inform the PTO of the inventive contributions of others. Def.'s Countercls. ¶ 28. This satisfies the requisite level of "more serious" fraud required by Walker Process. The counterclaim also alleges that Plaintiff was aware of the fraud when it "knowingly asserted" the fraud by bringing the instant lawsuit. Id. at ¶ 29.

In Defendant's seventh counterclaim, Defendant asserts that Plaintiff's patent infringement lawsuit is mere "sham" litigation because Plaintiff knew that the litigation "lacked merit" and because Plaintiff instigated the lawsuit as "an improper attempt to interfere with the business relationships of [Defendant]." Id. at ¶ 32-33. As a result, Defendant sufficiently alleges that Plaintiff's lawsuit is "both objectively baseless and subjectively motivated by a desire to impose collateral, anti-competitive injury rather than to obtain a justifiable legal remedy." Professional Real Estate Investors, 508 U.S. at 60-61.

While Defendant's sixth and seventh counterclaims successfully overcome Plaintiff's Noerr-Pennington immunity, the counterclaims fail to allege violations of all three elements of § 2 of the Sherman Act.⁴ To prevail on a § 2 attempt to monopolize claim, a claimant must prove that (1) the

⁴ Section 2 states: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States ... shall be deemed guilty of a misdemeanor." Parties injured by § 2 violations may bring treble damages claims against the injuring party pursuant to § 4 of the Clayton Act, 15 U.S.C. § 15, which states: "[a]ny person who shall be injured in his business

defendant engaged in anticompetitive conduct; (2) the defendant had a specific intent to monopolize; and (3) defendant's conduct had "a dangerous probability of achieving monopoly power." Spectrum Sports, Inc. v. McQuillan, 506 U.S. 447, 456 (1993). Moreover, to determine whether a dangerous probability of achieving monopoly power exists, the antitrust plaintiff must define the relevant market and prove "a realistic possibility that the defendant[] could achieve monopoly power in that market." Id. at 459; see also Walker Process, 382 U.S. at 177-78 ("To establish ... attempt to monopolize a part of trade or commerce under § 2 of the Sherman Act, it would [] be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved. Without a definition of that market there is no way to measure [the defendant's] ability to lessen or destroy competition.").

Defendant's sixth and seventh antitrust counterclaims allege the first two elements of a § 2 claim by alleging that Plaintiff engaged in fraudulent conduct—by procuring and attempting to enforce a wrongfully obtained patent—that harmed competition with a specific intent to monopolize. See Def.'s Countercls. ¶¶ 27-29, 31-34. Defendant fails, however, to allege that Plaintiff's conduct had a dangerous probability of achieving monopoly power. Nowhere in either counterclaim does Defendant attempt to define the relevant market or assert a realistic possibility that Plaintiff could achieve monopoly power in that market. Thus, dismissal of Defendant's sixth and seventh counterclaims, for failure to state a claim in violation of Fed. R. Civ. P. 12(b)(6), is a proper remedy. However, in light of the federal policy of deciding cases on the merits rather than on technical rule violations, along with the fact that leave to amend is "freely given when justice so requires," the

or property by reason of anything forbidden in the antitrust laws may sue therefor ... and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee."

Court grants Defendant leave to amend its counterclaims. See Keweenaw Bay Indian Cmty. v. State of Michigan, 11 F.3d 1341, 1348 (6th Cir. 1993) (citation omitted); U.A.W. Local 594 v. Int'l. Union, 956 F.2d 1330, 1339 (6th Cir. 1992); Wright & Miller, supra, § 1357, at 360-65 (“[T]he court normally will give plaintiff leave to file an amended complaint.... Amendment should be refused only if it appears to a certainty that plaintiff cannot state a claim. The better practice is to allow at least one amendment.”). Accordingly, the Court denies Plaintiff’s motion to dismiss and grants Defendant twenty days from the date of this Order to amend its sixth and seventh counterclaims.

IT IS SO ORDERED this _____ day of _____ 2003.

HON. BERNICE BOUIE DONALD
United States District Judge